

Consolidated Financial Highlights

December 31, 2020



Your Personal Banker

Report of the Managing Board

Introduction

Despite the consequences of the Covid-19 pandemic situation we continued to focus on our niche market, to provide personalized service and an enhanced customer experience, to ensure high compliance standards and to maintain stringent portfolio management, all of which contributed to our result. The commercial environment in all islands in which we operate, experienced high pressure due to the economic pandemic situation. This notwithstanding, with careful treasury management and the commitment of our staff in all islands, we were able to achieve a positive result in this difficult year 2020.

The economic situation of the islands

The COVID-19 pandemic has inflicted major economic damage and led to border closures followed by full lockdowns in almost each jurisdiction where ORCO Bank is operating from. These measures have prevented the spread of the virus but unfortunately produced severe blows to the economies of Curaçao, Sint Maarten and Bonaire, especially in the tourism sectors.

According to the latest estimates of the CBCS, the Curaçao economy contracted by 20% while the economy of Sint Maarten recorded a contraction of 26.8%. The fall in GDP in both economies was primarily caused by the effects of COVID-19 while border closures caused a severe decrease in both domestic and net foreign demand. This resulted in a significant decline in stay-over tourism and airport related activities while cruise tourism came to a complete standstill. Due to the ongoing challenges regarding the refinery in Curaçao there were hardly any refining activities. This has also had its impact on a further decline in harbor and ship repair related activities.

While the Public Entity Bonaire is moving forward with the central Dutch Government from The Hague to realize the objectives agreed upon by both parties the economy of Bonaire was also severely inflicted by the pandemic outbreak in March. The Dutch Cabinet decided that businesses operating in Bonaire can qualify for an emergency package of exceptional measures comparable to the financial assistance given to entrepreneurs operating in Holland. This has soothed the sudden shock of the lock downs while during this same year early infrastructure investments in roading and works towards the extension of the main cruise pier were recorded

Major developments within the Bank

During 2020 Mrs. Désirée Alberto- Martina succeeded Mrs. Mili Sprock as Managing Director Finance and Operations while Mr. Edward Pietersz was appointed as Managing Director Commercial & CEO of the Bank. We take this opportunity to express our gratitude to Mrs. Mili Sprock for her input and dedication to the Group.

The challenges we encountered in 2020 were similar in each jurisdiction and as expected primarily COVID-19 related. As a response to the pandemic the bank offered two (2) periods of financial assistance of each three (3) months to clients in need who could opt-in for loan moratorium to help with the economic slowdown aided by the COVID-19 pandemic. As a result, various Policies and Procedures with regard to Liquidity and Risk Management were modified or updated.

Bank's performance - financial highlights

In 2020, the balance sheet total increased by 3.6% to ANG 947,944 (2019: ANG 915,383). The increase can be attributed to the increase of Cash and cash equivalents from ANG 12,334 to ANG 18,123 (an increase of 46.9%) and an increase in Amounts due from banks from ANG 105,417 to ANG 132,585 (an increase of 25.8%), netted with a decrease in Investment Securities from ANG 11,870 to ANG 835 (a decrease of 93%). The liabilities which increased are Deposits from Customers from ANG 781,689 to ANG 813,419 (an increase of 4%).

The decrease in Net interest income from ANG 30,152 to ANG 29,329 (a decrease of 2.7%), increase of Interest expenses to ANG 12,270 (13.5%) and decrease of the Net result on financial transactions to ANG 667 (46.4%), all contributed to the Bank recording a profit after tax for 2020 of ANG 4,063 (2019: ANG 8,789). The impact of the

increase of the provision of ANG 3,248 in this pandemic period could be contained based on the quality of the loan portfolio. The Personnel expenses decreased with 17.9% and the Other operating expenses increased with 28.4%, causing the Total expenses to increase with 8%.

For 2020 the bank has applied the new (territorial) tax legislation in determining its tax positions. This led to a remeasurement of its deferred tax positions for an amount of ANG 1,382 (positive) which offsets the current tax expense of ANG 1,388 recognized for 2020 and leads to a net tax expense of ANG 6.

Outlook for 2021

For Curaçao and Sint Maarten, the economic landscape for 2021 remains challenging and will be significantly influenced by, amongst other things, the duration of the COVID-19 pandemic and continuing lockdowns, the ongoing discussions regarding structural reforms / COHO and the future of the refinery. The latest estimates of the CBCS show a projected GDP growth of 4.8% for Curaçao and 3.6% for Sint Maarten while the projected inflation is expected to climb to 3.7% in Curaçao primarily caused by the introduction of ABB.

During the year Bonaire had a decrease in the cost of living of an average of 2.5% lower than 2019. The last quarter of 2020 was 5.2% lower than the last quarter of 2019. The lower cost of living was primarily influenced by the subsidies given to each household by the Dutch government. Expectations are that the construction sector will remain strong while the demand for real estate in the high-end areas will continue to grow.

The banks aim will be to continue to excel in the heavily competitive markets we operate, Bonaire, Curaçao and Sint Maarten. We are even more committed and even pledge to go the extra mile for the clients, especially during these challenging times. Service Excellence will continue to be our motto during 2021, by offering quick turnaround of requests and efficient handling of compliance and good corporate governance principles. With that being said, we are aware that the primary effect of COVID-19 on all three economies will be the increased credit risk of corporate and retail clients of the bank while the contraction in economic activity thru-out all three destinations can have adverse consequences on credit quality. The overall risk profile of our portfolio increased because of the economic situation, which is reflected in the loan loss provision. During these uncertain and unprecedented times, it is difficult to quantify the impact on the global economy and even more difficult to predict the impact on the local economy and our clients. This might result in future shocks in our loan loss provisions and net result in the next few years.

In order to deal with the impact of the pandemic towards our relationship with clients and prospects it has become even more pressing that the introduction of new products and services go hand in hand with a further digitalization of the banks services to be able to offer excellent customer experience.

The Ride for the Roses event continues to be our flagship event while due to COVID-19 the annual activity could not take place. We are committed to continue to promote awareness that cancer is curable. With this event we also support the 'Stichting Prinses Wilhelmina Kanker Fonds' in executing their charitable and supportive tasks to the cancer patients and their families.

The Managing Board is thankful for the commitment and support of our dedicated and motivated staff, without them we could not have achieved our goals and successes of 2020. The Managing Board also thanks our Supervisory Board, our shareholders, and above all our esteemed clients for their continuous guidance, trust, and business.

Willemstad, Curaçao, 8 February 2021

The Managing Board
of Orco Bank N.V.

Accounting policies

General

The principal accounting policies adopted in the preparation of the Consolidated Financial Highlights of Orco Bank N.V. and its subsidiaries (the 'Bank') are set out below. These explanatory notes are an extract of the detailed notes included in the consolidated financial statements and are consistent in all material respects with those from which they have been derived.

Basis of preparation

The Bank's consolidated financial statements, from which the Consolidated Financial Highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS'). The figures presented in these highlights are stated in thousands of Antillean Guilders and are rounded to the nearest thousand. The accounting policies used have been consistently applied by the Bank and are consistent, in all material respects, with those used in the previous year.

Basis of consolidation

Subsidiaries are all entities (including special purpose entities, if any) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

The following subsidiaries have been consolidated as of December 31, 2020: Orco Finance N.V., Orco Bank Onroerend Goed N.V., Flamboyant Onroerend Goed N.V., Jan Noordduynweg Onroerend Goed N.V., Westpunt Onroerend Goed N.V., Orco Bank Investments Holding N.V., Orco Bank Investments B.V., Cerrito Onroerend Goed N.V. and Willemsplein Onroerend Goed N.V.

Classification and subsequent measurement of financial assets

Classification and subsequent measurement of the financial assets depend on:
(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance as further described below.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL HIGHLIGHTS OF ORCO BANK N.V.

Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through profit or loss ("FVPL"):

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Derecognition of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Expected credit loss principles

Based on IFRS 9, the loans are grouped into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3;
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs;

Calculation of Expected credit losses

The key elements of the ECL calculations are as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs such as GDP growth, Unemployment rates and the Consumer Price Index. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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CONSOLIDATED BALANCE SHEET OF ORCO BANK N.V. (All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2020	31-Dec-2019
Assets		
Cash and due from banks	150,708	117,751
Investment securities	835	11,870
Loans and advances to customers	775,782	764,344
Bank premises and equipment	15,624	15,899
Other assets	4,995	5,519
Total assets	947,944	915,383
Liabilities		
Deposits from customers	813,419	781,689
Amounts due to banks	111	783
Deferred tax liabilities	5,467	6,849
Other liabilities	6,944	8,122
	825,941	797,443
Shareholder's equity		
Issued capital	7,774	7,774
Share premium	18	18
General provision on loans and leases	31,274	30,832
Retained earnings	82,937	79,316
	122,003	117,940
Total shareholder's equity and liabilities	947,944	915,383

CONSOLIDATED INCOME STATEMENT OF ORCO BANK N.V. (All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2020	31-Dec-2019
Interest income	41,599	40,963
Interest expense	12,270	10,811
Total net interest income	29,329	30,152
Fee and commission income	3,098	4,026
Fee and commission expense	-	-
Total net fee and commission income	3,098	4,026
Net trading income	667	1,245
Other operating income	193	223
Total net operating income	860	1,468
Total income	33,287	35,646
Salaries and other employee expenses	13,217	16,100
Occupancy expenses	2,783	2,752
Net impairment losses on loans and advances	3,248	1,124
Fair value adjustment on investment properties	500	-
Other operating expenses	9,470	7,146
Operating expenses	29,218	27,122
Net result from operations	4,069	8,524
Income from associates	-	-
Net result before tax	4,069	8,524
Profit tax expenses	6	(265)
Net income after tax	4,063	8,789

SPECIFICATION OF ACCOUNTS (All amounts are expressed in thousands of Antillean Guilders)

	31-Dec-2020	31-Dec-2019
Assets		
Investment securities		
Debt securities at amortized cost	828	11,864
Financial assets at fair value through profit or loss	7	6
Total investments	835	11,870
Loss allowance for expected credit losses	-	-
Net investments	835	11,870
Loans and advances to customers		
Retail customers	452,766	448,385
Corporate customers	307,484	300,375
Other	26,314	23,968
Total loans and advances	786,564	772,728
Accrued interest receivables on loans and advances	2,795	2,913
Allocated loan loss provision	(13,577)	(11,297)
Net Loans and advances	775,782	764,344
Liabilities		
Customers' deposits		
Retail customers	317,606	299,658
Corporate customers	461,029	449,946
Other	27,895	27,464
	806,530	777,068
Accrued interest payable on customers' deposits	6,889	4,621
Total customers' deposits	813,419	781,689

Independent Auditor's Report

To the Shareholder and Management Board of Orco Bank N.V.

The accompanying consolidated financial highlights, which comprise the consolidated balance sheet as at 31 December 2020 and consolidated income statement for the year then ended and related notes, are derived from the audited consolidated financial statements of Orco Bank N.V. ("the Bank") for the year ended 31 December 2020.

In our opinion, the accompanying consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements of the Bank, in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the Central Bank of Curaçao and Sint Maarten ("CBCS").

Consolidated financial highlights

The accompanying consolidated financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the accompanying consolidated financial highlights and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank and our auditor's report thereon.

The audited consolidated financial statements and our auditor's report thereon

We expressed an unmodified audit opinion on the consolidated financial statements 2020 of the Bank in our auditor's report dated 8 February 2021.

Responsibilities of management for the consolidated financial highlights

Management is responsible for the preparation of the accompanying consolidated financial highlights in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the CBCS.

Auditor's responsibilities

Our responsibility is to express an opinion on whether the accompanying consolidated financial highlights are consistent, in all material respects, with the audited consolidated financial statements of the Bank based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Curaçao, 17 February 2021

Ernst & Young Accountants
drs. R.J.W. van Nimwegen RA

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